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Concentrated Poverty in Milwaukee

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News and Views

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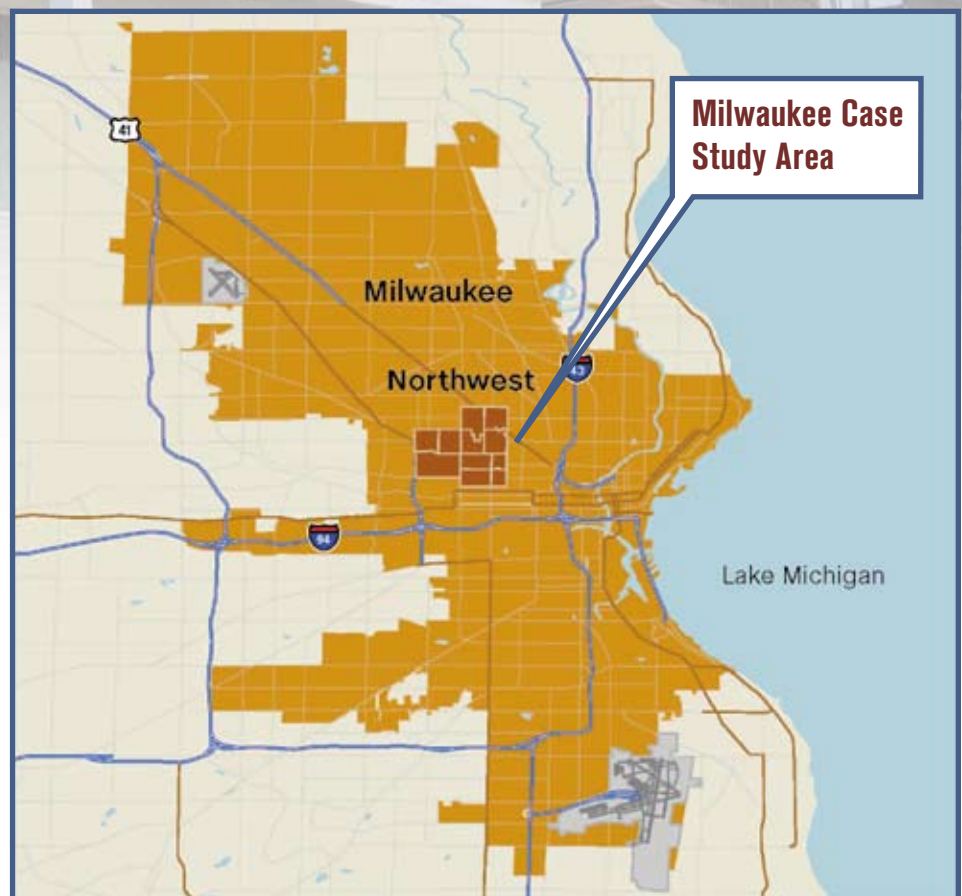
Concentrated Poverty in Milwaukee

by Jeremiah Boyle

Hurricane Katrina and its aftermath created a renewed awareness of the unique isolation and vulnerability of people who live in communities where poverty concentrates and persists. The Federal Reserve's Community Affairs staff partnered with the Brookings Institution to re-examine our understanding of concentrated poverty – defined as areas where at least 40 percent of the population lives below the poverty line.

The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S. identifies 16 communities in big, medium, and small cities, rural communities, and tribal lands, all of which share the characteristic of high concentrations of poverty. The study provides a quantitative basis for comparing these communities' rates and trends of poverty, income, demographics, education, labor market, housing, and access to credit. In addition to comparing the case study areas to each other, each case study highlights the important regional context in which these pockets of high-poverty exist.

The Enduring Challenge of Concentrated Poverty in America went well beyond the statistics and quantitative analysis. The case studies tapped the unique capacity of the Federal Reserve's Community Affairs staff to add the texture and nuance that



can only come from more qualitative perceptions and descriptions of socio-economic issues.

The case studies are thematically organized around four questions about concentrated poverty:

- What challenges does living in an environment of concentrated poverty pose for these communities and the families that live there?
- What factors contribute to the development and persistence of poverty?
- What is the capacity of local organizations to address issues of concentrated poverty?
- What strategies are public and private sectors employing to ameliorate its effects?

The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S.

In 2006, the Community Affairs Offices of the Federal Reserve System partnered with the Brookings Institution to examine the issue of concentrated poverty. The resulting report, *The Enduring Challenge of Concentrated Poverty in America: Case Studies from Communities Across the U.S.*, profiles 16 high-poverty communities from across the country, including immigrant gateway, Native American, urban, and rural communities. Through these case studies, the report contributes to our understanding of the dynamics of poor people living in poor communities, and the policies that will be needed to bring both into the economic mainstream. See www.frbsf.org/cpreport/index.html.



The Milwaukee case study neighborhood consists of 11 contiguous census tracts adjacent to downtown Milwaukee, all of which have a poverty rate of at least 40 percent. The case study area includes all or parts of neighborhoods known locally as: Sherman Park, Metcalfe Park, Uptown, Washington Park, Walnut Hill, Midtown, Martin Drive, and Cold Spring Park. Although the data collection and analysis focused on the 11 census tracts, the qualitative analysis – the narrative of the case study – is really about a much larger area of northwest Milwaukee.

Challenges of Concentrated Poverty for Communities and Families

There are common themes that run through all of the case studies and that echo the plentiful, extant literature on the subject. For example, human capital development in the form of education for children, training and retraining adults displaced by economic upheaval, and basic financial literacy for everyone was noted in each community.

Unemployment, underemployment, and wage disparities are also significant factors contributing to the concentration and persistence of poverty. Unemployment and labor force participation statistics are often the primary measure of a community's economic performance.

Wage disparities provide a more nuanced and troubling challenge. Nathan Marwell's article, "Wage Disparities and Industry Segregation: A Look at Black-White Income Inequality from 1950-2000," beginning on page 9, points out on a national level, "It is



Figure 1: Human Capital

	Northwest Milwaukee	Milwaukee MSA
Education		
% Adults without high school diploma, 2000	46.4	15.5
% Adults with a college degree, 2000	7.2	27.0
% Students proficient in reading, 2005	52.9	78.7
% Students proficient in math	37.1	67.0
Labor Market		
Unemployment rate, 2000	22.0	5.2
% Adults in the labor force	55.7	68.1

This article expands on the case study, "Milwaukee, Wisconsin: The Northwest Neighborhood," from the monograph, *The Enduring Challenge of Concentrated Poverty in America: Case Studies from*

Communities Across the U.S. The purpose of the article is to illustrate how people, place, poor economic conditions, and policy interact to create communities that perpetuate poverty.

impossible to eradicate income inequality when wage inequality exists in every major industry.” Indeed, this observation supports the findings of a 1998 analysis by the Center on Wisconsin Strategy that, “The average difference in median hourly wages between workers in the same occupational category in the [case study] area versus those in Milwaukee County is \$3.36 per hour.” Since the case study area is almost 80 percent African American, many assume that the growing wage gap is attributable to racial inequality and discrimination in the labor market.

Recent research by economist Christopher Wheeler for the Federal Reserve Bank of St. Louis concludes that, even as the unemployment rate in metropolitan areas decreased, the concentration of unemployed persons grew dramatically.¹ In a separate study, Wheeler analyzed wage gaps along several different categories of wage earners. In this study, Wheeler found that, while some of the growth in wage inequality can be explained by differences between different categories of wage earners (i.e., Black vs. White wage earners; or wage earners with a high school diploma vs. those with a bachelor’s degree), a larger portion of the growth in wage inequality is explained by the growth (or decline) in wages between the highest wage earners and the lower wage earners within each demographic category.²

More attention and analysis is needed to fully understand how employment, unemployment, underemployment, and wage disparities interact, especially in high-poverty communities.

Finally, housing issues arise in all of the case study communities, albeit for different reasons. Unlike cities that have more highly concentrated public housing or more significant affordability challenges, housing policy in Milwaukee seems to emerge more often as an adjunct to other issues:

Figure 2: Significant Demographic Changes

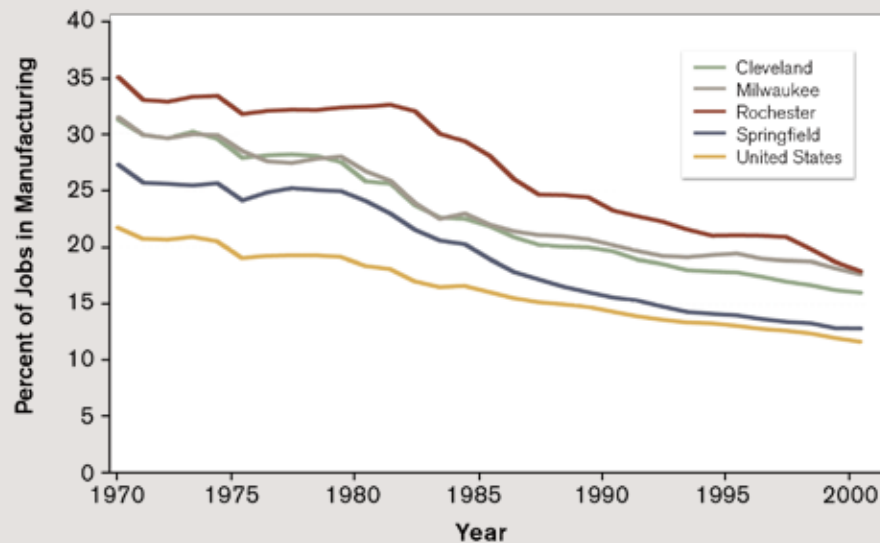
	Northwest	Milwaukee (MSA)
Poverty Rate		
Poverty rate 1970	18.0	7.9
Poverty rate 2000	48.0	10.6
Income		
Median household income	\$19,356	\$45,982
Demographics		
Population, 2000	23,294	1,500,741
% Population change, 1970 – 2000	-36.1	6.9
Racial/ethnic composition		
% White	5.6	74.4
% Hispanic/Latino	3.5	6.3
% Black/African American	78.8	15.5
% Residents under age 18	47.3	26.4
% Single-parent households	52.7	9.8
% Foreign born, 2000	7.1	5.4
% Population in same house as five years ago	42.5	49.1
Access to Credit		
% Credit files that are thin, 2004	50.8	23.0
% Credit files with high credit scores	17.1	58.5
% Mortgage originations that are high cost, 2005	62.7	25.9
Mortgage denial rate, 2005	26.4	15.9

- Families that have to move frequently disrupt continuity at school.
- Health care providers can treat allergies and asthma, but they cannot cure or effectively manage those conditions in the face of environmental challenges at home (i.e., mold, lead paint, second hand smoke).
- High-cost mortgage loans constrain and frustrate home ownership aspirations for those families living in high-poverty and segregated neighborhoods.

There are many more challenges that are associated with living in high-poverty communities that are common to each of the case study communities (crime, health,

transportation, neighborhood amenities). There are, however, significant differences in the local histories, economic contexts, and leadership capacities in each community yielding divergent priorities in addressing the issues. This leads to the conclusion that indeed there are no magic bullets for addressing issues of concentrated poverty.

Finally, it is worth noting here that, based on this descriptive analysis, place matters. The socioeconomic conditions in very poor neighborhoods are associated with more limited opportunities for residents and appear to become self-perpetuating.

Figure 3: Loss of Manufacturing Jobs in Northern Cities – 1970-2000

SOURCE: U.S. Bureau of Economic Analysis, Regional Economic Information System, Table CA25, Total Full-time and Part-time Employment by Industry.

Factors that Contribute to the Development and Persistence of Concentrated Poverty

While there are many factors that are associated with the development and persistence of concentrated poverty, *The Enduring Challenge of Concentrated Poverty in America* highlights and illustrates four.

History Matters

History matters because poverty concentrates over time. High levels of poverty in these communities are the product of long-term, complex, economic and social dynamics, and deliberate actions in both the public and private sectors. While standard economic theory suggests that the lower prices of housing and labor would eventually attract new investment and employment opportunities, the poverty rates in these case study areas worsened or stagnated between 1990 and 2000 despite the prevailing economic growth and prosperity and declining national poverty rates.

Like many of its peer cities in the Midwest and Northeast, Milwaukee was hit hard by the forces of

deindustrialization and the loss of manufacturing jobs (see Figure 3). The case study neighborhood is at the heart of what was once a booming center of many different industries. As those industries declined and disappeared, historical patterns of racial segregation in the housing market evolved into the geography of poverty in Milwaukee.

Demographic Changes

Demographic changes are key drivers in the concentration and persistence of poverty. The out-migration of middle-income families left pockets of lower-income and predominantly minority households. And nowhere is the growth of children in single-parent families more pronounced than communities where high concentrations of poverty persist.

As the chart shows, rapidly increasing poverty rates, lower median incomes, a very young population with a high concentration of single-parent households, and a high concentration of high cost (subprime) loans are among the demographic trends in Milwaukee that have contributed to the concentration and persistence of poverty.

Poverty concentrates in the midst of both weak and strong regional economies. Regional economies that are themselves transitioning to “post-industrial” status (deindustrialization, economic restructuring, and globalization) add to the challenge of those struggling for personal economic growth in high-poverty communities. One author uses the analogy of someone running up a down escalator that seems designed to adjust its descent to the amount of effort to move up.³

Paradoxically, the persistence of concentrated poverty in strong regional economies reminds us that simply growing the economy does not necessarily lift all boats and that the long-term exclusion of poverty-stricken communities requires more active interventions to ensure their inclusion in improving economies.

Almost all of the job growth in the metropolitan area has occurred away from the city. While the study area and the greater Northwest Side of Milwaukee lost 7,265 jobs between 1994 and 2003, the three surrounding counties of Waukesha, Ozaukee, and Washington (the “WOW” counties) added 51,876 jobs.⁴

“This becomes a fair housing issue in view of the fact that the central city is predominantly African American in population, yet 32.3 percent of Milwaukee’s Black households do not own cars...Currently the region’s mass transit is not adequate to access employment outside Milwaukee County.”⁵

Isolation

Finally, pervasive isolation underlies all of the case study communities – not just the physical disconnection of being on the “wrong side of the tracks.” Isolation in these communities is characterized by social, racial, linguistic, and economic separateness from the surrounding community and larger economy.

Employment and wage disparities illustrate the point, as discussed above.



Milwaukee's case study is home to the headquarters of Harley-Davidson and the former headquarters of Miller Brewing. It is also in the shadow of downtown Milwaukee's office towers and high-rise condominium complexes. It is immediately adjacent to Marquette University and the resurgent employment center known as the Menomonee Valley.

The old "Beer Line" railroad tracks that used to serve a thriving manufacturing center has now become a symbol of not only the "wrong side of the tracks" physical isolation, it is also a symbol of a much more compelling and challenging detachment from the economic, social, and political mainstream of greater Milwaukee.

Challenges of "Being Poor in a Poor Neighborhood"

Isolation acts to promote and perpetuate the challenges of being "poor in a poor neighborhood." Those challenges include human capital – the combination of schools and skills; social capital – "personal relationships that aid in achieving goals"⁶; and the lack of mainstream investment. Clearly, Milwaukee shares the plight of overcoming the challenges – both real and perceived – of higher costs, limited buying power, crime and safety, illicit economic activity, and a younger and less educated population, that dampen investment in some communities.

In most of the case studies, nonprofit/advocate efforts to address the complex and interrelated barriers these communities face are hindered by the new and evolving nature of the problems; changing populations; and the struggle to retain talent, especially young people. And even when government, private and nonprofit stakeholders try to pull together, these efforts are often thwarted by a shortage of genuine expertise, governance issues, and the lack of trust engendered by some of these efforts. High-profile failures influence public thinking more than lower-profile successes.

Community development efforts in Milwaukee have been stymied by this interaction of capacity, governance, and trust issues:

"[Mayor John] Norquist sought to use more block grants to offset deficits in the city budget or the employee pension fund. According to the Milwaukee Journal Sentinel, the proposal in 2002 would increase the city's share of the federal block grant allocation from 40 to 57 percent. In that year, federal CDBG revenue was \$22 million. The paper quoted block grant director Mike Soika saying that these changes reflected the city's objective of 'redefining its relationship' with community organizations. The city, he stated, 'will fund fewer groups, reduce duplication, and focus on value and outcomes' in the future.⁷ According to the 2004 block grant

funding guide, the city had increased its share of block grants to 55 percent of the \$21 million federal entitlement.

Neighborhood organizations and their allies vocally opposed these measures, but resigned themselves to the shifting community development landscape."⁸

Addressing Concentrated Poverty in Milwaukee

Every community has its own approach to stabilizing and revitalizing communities. Generally, these approaches fall somewhere along a spectrum: at one end, are place-based initiatives that focus on improving the physical environment of the community; and, at the other end, people-based initiatives focusing on expanding opportunities for individuals and families. The limited scope of place-based programs does little to affect the impact of broader macroeconomic forces. They are sometimes criticized for clustering projects like affordable housing, further concentrating underserved populations. People-based programs struggle to achieve the scale and reach to serve the large populations they intend to serve.

The strategies that are emerging more recently borrow from both ends of that spectrum in an effort to not simply improve communities, but transform them by "fundamentally altering the socioeconomic mix of distressed areas to create communities that are attractive to a broader range of households."

Figure 4: Business Growth in Metro Milwaukee
(Number of Business Establishments)

Area	1994	2003	% change 1994-2003
Inner City	4,080	3,774	-7.5%
Northwest Side	2,170	2,020	-6.9%
Milwaukee County	22,109	21,037	-4.8%
WOW Counties	16,226	18,655	15.0%

SOURCE: UWM Center for Economic Development analysis of U.S. Census, *County Business Patterns*, establishment data by zip code, 1994-2003 (in Levine, 2006)



In Milwaukee, the Zilber Initiative aims to engage residents of targeted communities in transformational initiatives. Loosely based on the New Communities' Programs in Chicago, the goal is to have residents and stakeholders of targeted neighborhoods develop and implement comprehensive

neighborhood transformation through plans that are developed by the residents of each of those neighborhoods. Development and implementation of these plans are fully supported through a multi-year commitment of \$50 million from the Zilber Family Foundation, and a broader array of the city's leadership through a select group of advisors from the civic and corporate leadership of the city.

Theoretically, one of the ways that individuals can address a lack of employment opportunity is to become an entrepreneur – self-employment. However, less than 5 percent of the households in the study area reported self-employment income as compared with 12 percent of households in the state. The study area lost business establishments during a decade of national prosperity. Figure 4 shows that the study area lost 7.5 percent of its businesses while the number of businesses in outlying counties increased by 15 percent.⁹ Milwaukee's inner city might well benefit from a sustained effort to encourage entrepreneurship, especially efforts to support growing minority-owned firms that have a greater propensity to hire minority workers.

Progress Through Business, a national nonprofit, and the City of Milwaukee created the Milwaukee Urban Entrepreneur Partnership (UEP) to support and encourage entrepreneurship in the city. The

fragmented business assistance system in Milwaukee was seen as an impediment to entrepreneurial development. The UEP weaves together the elements of a comprehensive business assistance program for early-stage growth-oriented businesses to help create a culture of entrepreneurship. It is also designed to leverage minority-owned businesses' propensity to hire minority workers by growing minority-owned businesses to scale. The UEP works with senior-level executives at large corporations and institutions to identify joint ventures, spinouts and divestitures, strategic partnerships, and other opportunities for the corporation to enter into a market-driven venture with a minority entrepreneur.

Leadership and Partnership: Two Ships Passing in the Night?

As discussed above, "Neighborhood organizations and their allies vocally opposed these measures, but resigned themselves to the shifting community development landscape."¹⁰ A once strong and innovative coalition of financial institutions, housing counseling groups, and the city, crumbled under the weight of affordable housing projects that defaulted, bankrupting some of Milwaukee's strongest nonprofits and splintering the coalition. Then, New Opportunities for Homeownership in Milwaukee (NOHIM) disbanded after 12 years of addressing home mortgage lending issues in Milwaukee. NOHIM was originally created to address the racial disparity in loan denial rates in Milwaukee, which has consistently had one of the highest levels of disparity among mortgage applicants nationwide. NOHIM, a coalition of financial institutions and home buyer counseling agencies, made \$263 million in loans to 4,653 applicants over 12 years, 80 percent of which went to ethnic minorities.¹¹

Milwaukee generally, and NOHIM specifically, illustrate the point made above that, a lack of trust "attaches to many of these efforts because high-

profile failures influence public thinking more than the lower-profile successes that occur only with sustained efforts over time.” The general atmosphere of mistrust in which NOHIM decided to disband overshadows the fact that, while NOHIM existed, low-income and minority households in Milwaukee’s “target area” gained greater access to home mortgage and home equity products. Indeed, although we cannot demonstrate a cause-effect relationship, as NOHIM disappeared, high-cost (subprime) lending surged, and now, “Metropolitan Milwaukee has some of the greatest racial disparities in subprime lending in the U.S.”¹²

More recently, Milwaukee Mayor Tom Barrett convened the Milwaukee Foreclosure Partnership Initiative (MFPI), a coalition of government officials, housing counseling agencies, community development groups, financial institutions, and philanthropic organizations. MFPI’s immediate goal is to access the resources available through the U.S. Department of Housing and Urban Development’s (HUD) Neighborhood Stabilization Program (NSP), and address the foreclosure crisis in Milwaukee. MFPI succeeded in obtaining \$9.2 million in NSP funds from HUD. However, recent interviews conducted by the author with MFPI participants reveal that this coalition must remain vigilant to guard against a mindset, borne of history’s “high profile failures” in order to sustain and build upon this initial success.

Clearly, one thing that local practitioners crave but see as largely missing in Milwaukee is leadership and engagement from the corporate community. There is a general sense that a lack of sustained engagement by corporate executives in local economic and community development initiatives saps the community of vital social capital that emerge from functioning social networks.

An interesting paper by Sean Safford, a professor at the University of Chicago,

“Why the Garden Club Couldn’t Save Youngstown,” compared the trajectory of Allentown, Pennsylvania, and Youngstown, Ohio. The paper focuses on the role of corporate and civic leadership and the interactions that developed between centers of power in those communities. The network effects that emerge show that, “particular organizations must connect actors who are not otherwise well connected in order to serve as a focus of civic engagement... Rather than simply increasing the number of civic organizations or even participation in them...what is most important is how social capital is deployed, called upon, and realized by actors within communities...”¹³

Progress Through Business (Progress), a national nonprofit organization affiliated with the University of Wisconsin’s Center on Business and Poverty, works with large corporations to help them engage in local development efforts through their business operations, first. Three legs of the Progress stool are called BusinessLINC, EmployeeLINC, and GreenLINC. “LINC” stands for learning, investment, networking, and collaboration.

BusinessLINC is an example of creating social capital through network effects. The BusinessLINC coalitions were created to bring CEOs directly into addressing the issue of greater inclusion of minority-owned businesses in corporate supply chains. The initiatives don’t tell the CEOs how to do it; they ask the CEOs to do exactly what they do for the companies they lead: survey the environment for opportunities and marshal the resources to seize those opportunities specifically in the communities in which they maintain business operations and facilities. EmployeeLINC and GreenLINC ask the same of the CEO as it applies to human resources (especially for a company’s low-income employees), and as it applies to the development and maintenance of the company’s physical plant.

Some relatively new initiatives in Milwaukee that benefit from corporate engagement and commitment and show a great deal of promise include the Zilber Initiative, which is led by a board of advisors comprised of high-profile civic and corporate leaders¹⁴, and the Milwaukee 7’s Regional Workforce Alliance and the Milwaukee 7 Water Council.

The Regional Workforce Alliance, with support from the U.S. Department of Labor’s Workforce Innovation in Regional Economic Development (WIRED) initiative, is leveraging both the new resources of the WIRED program and the existing workforce development programs in the region. However, in order to be transformative, its stated philosophy is that, “Innovation and transformation most often happen at the intersections between organizations and thus single, stand-alone projects are not eligible for funding.”¹⁵

One target industry for the Regional Workforce Alliance approach to “produce the right amount of talent with the right skills when and where needed,” is the water technology. Milwaukee has positioned itself as a global leader in development of fresh water technologies.¹⁶ As a relatively new industry developing emerging technology, the water industry will need a deep and growing pool of talent to feed the anticipated growth of the industry, even if the specific skill sets necessary are still evolving.

The Challenges of Effective Collaboration

All of the initiatives highlighted in this report, including the Milwaukee Foreclosure Partnership, the Zilber Initiative, the Milwaukee 7’s Water Council and Regional Workforce Alliance, Progress Through Business, and many others, will face the dual challenges of looking “over the horizon” for opportunities, while focusing strategically on the near-term needs of the community.

In order to succeed, these initiatives must begin with the end in mind. What, specifically, are you trying to accomplish? How will you measure success? What will you measure? How will you measure it? And, finally, how will partners hold each other accountable and remain partners?

One example of an organization that has addressed the dual challenges of vision and strategic focus is Chicago United. Chicago United was created in the aftermath of the 1968 riots in Chicago. It is the only organization that is dedicated exclusively to addressing race in business through hiring, promotion, board development, and minority supplier initiatives.

Chicago United's Five Forward® Initiative is a compelling commitment by dozens of Fortune 1000 companies to establish new relationships with five minority-owned suppliers and professional service providers and to track the benefits of those relationships – over five years – for the company, the supplier, and the communities where the suppliers and companies are located. However, the program has a single measure of success: how much has revenue increased at the participating minority-owned firms? Everyone in the program understands and agrees that the growth of the minority-owned companies – specifically their revenue growth, is the only basis on which the other benefits (increased employment opportunities, wealth creation, and economic development) can be achieved.

There is an elegance to the single measure that seems to be generating an increased level of engagement and commitment from the highest levels of the participating Five Forward® firms. Not every initiative can focus on just one measure of success, but the Five Forward® initiative does demonstrate that well-defined goals and accountability can help leaders marshal the resources to efficiently and effectively address challenging issues.

Conclusion

The Enduring Challenge of Concentrated Poverty in America describes a number of challenges that high-poverty communities in the United States face across a range of geographic, economic, and demographic environments. It also concludes that there are no “silver bullets” or policies that could be adopted at the national level that would fully address the multiple issues that concentrate and isolate individuals and families in these pockets of poverty.

Milwaukee's Northwest Side provides an excellent case study of both the similarities and the uniqueness of high-poverty neighborhoods. In order for Milwaukee to address its unique set of issues that promote and perpetuate concentrated poverty, Milwaukee will need to address its need of the development of leadership capacity and social capital necessary to address the core issues. That will require patience and trust.

Notes

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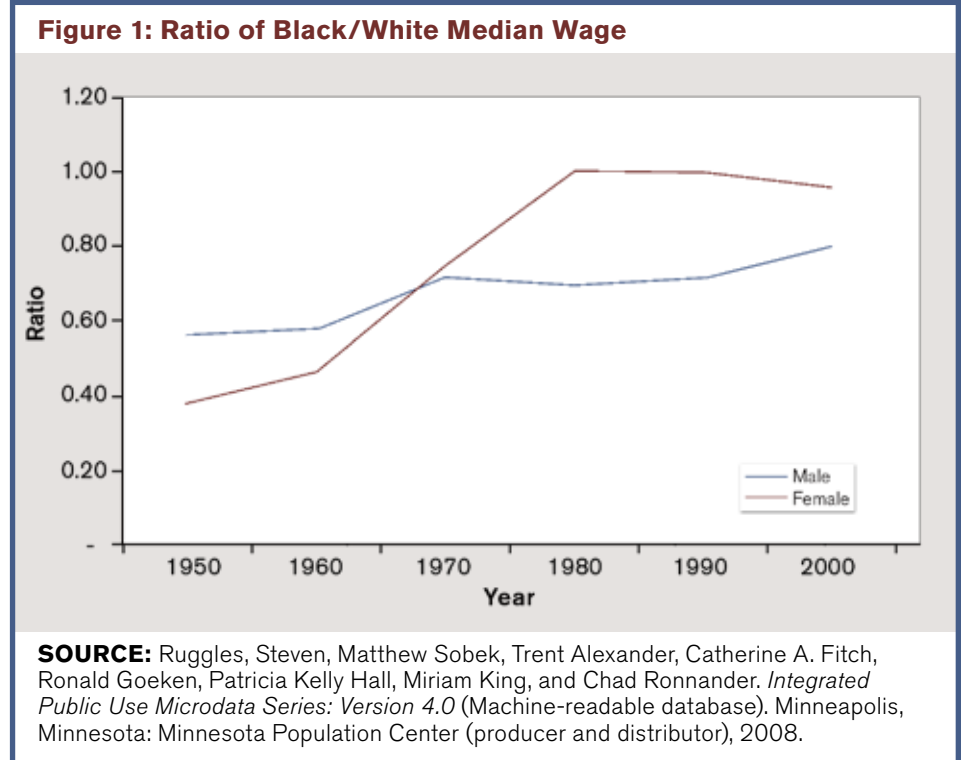
Wage Disparities and Industry Segregation: A Look at Black-White Income Inequality from 1950-2000

by Nathan Marwell

Introduction

The last sixty years has been a period of profound change for Black Americans. In the 1950s and 1960s, Supreme Court cases and federal legislation eliminated many unfair and discriminatory laws passed over the course of the prior century that had effectively subordinated Black Americans to second class citizenship. A variety of social and economic conditions have changed during the roughly six decades since the modern Civil Rights Movement began, in part as a result of these decisions, and significant shifts in cultural norms and beliefs, as well. The purpose of this article is to explore some of the economic ramifications of this change, focusing specifically on the labor market and changes in income differentials between Black and White Americans during the period.

Figures 1 and 2 illustrate two important, labor-related economic facets of life for Black Americans. The first figure is a graph of the ratio of the median wages for Black and White men and women from 1950 through 2000. The second figure is a series of pie charts showing the top five industries employing Black and White men and women in 1950 and 2000. Both figures illustrate important trends. First, the ratio of difference between the wages Black and White workers earn, decreased over the period. Second, the compositions of industries employing Black and White workers were



drastically different in 1950, but much more similar by 2000. This article is a closer look at the data underlying these two figures, and how changes in employment in major industries and wage structure in these industries have impacted income differences between Black and White workers.

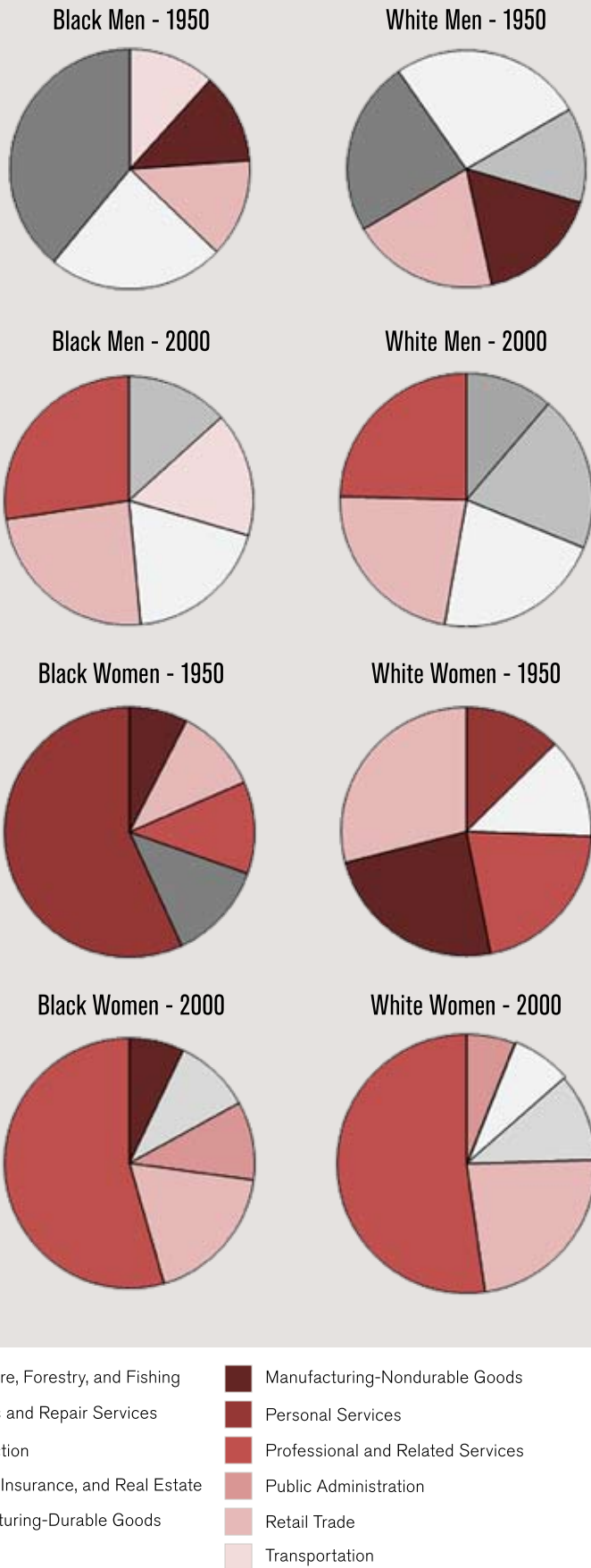
Framework

This article presents changes in income inequality as the outcome of two forces: industry segregation¹ and wage differentials within industries. The basic

premise is that the level of segregation in an industry impacts the overall (median) wages of demographic groups; for instance greater participation in a relatively higher paying industry impacts the median wage for a demographic more than one in which that demographic participates relatively less. Figure 3 presents three hypothetical examples that illustrate this point.

In the first two cases, 200 Black and White workers are employed across two different industries. Case 1 indicates total segregation, where all Black workers are employed in Industry A, while all White

Figure 2: Employment Shares in Five Largest Industries



workers are employed in industry B. However, since both industries pay the same wage to both workers, the average wage is identical. Case 2 illustrates the opposite circumstance. Black and White workers are employed equally in both industries, but Black workers earn less than White workers – an average of \$10,000 less annually. While Case 1 and 2 are simple examples, Case 3 underscores the complex interaction between segregation and wage differentials. In this example, there are 500 Black and White workers employed across four different industries. In each industry, both Black and White workers earn the same wage. However, while industries A through C are less segregated than in Case 1, the acute segregation in industry D results in White workers earning on average \$12,500 more than Black workers.

These examples illustrate that income inequality is a complex phenomenon that is responsive to the degrees of segregation and wage differentials among industries. The analysis presented here will focus on the degree of segregation and wage differentials across and within industries, how these values changed over time, and ultimately how the changes impacted income inequality. It is important to note that the underlying causes of industry (and societal) segregation are not part of the analysis or purpose of the article. Rather, the goal is to identify if and where industry segregation and wage differentials exist, and their impact on income inequality at different times.²

Data and Methodology

All of the data for this article came from the 1 percent public use samples of the decennial census, from 1950 through 2000.³ For each year, the data was organized as follows. First, the dataset was restricted only to people who were currently employed, so that the data would accurately reflect labor market conditions current to the time period.⁴ Second, wage data was converted into (year) 2000 dollars. Every industry was then classified into 17 composite categories, according

to the Integrated Public Use Microdata Series IPUMS aggregation rule.⁵ The data was then disaggregated into four demographic groups: Black men, Black women, White men, and White women.

For each decade, the percentage of people employed and the median wage in every industry was then calculated for each demographic group, providing the focus for the analysis. Finally, industries were ranked in each decade by the percentage of the population employed in each demographic group. To clarify and expedite the analysis, of these 17 industries, only the top five were analyzed, as attempting to examine and draw inferences about the 408 work group units that result from tracking all 17 industries⁶ would have been too unwieldy.⁷

Black Men

Figure 4 shows the top five industries and corresponding population percentages and median wages for Black and White male workers from 1950 through 2000. In studying the Black male labor market, it is helpful to analyze it in two periods: 1950-1960, and 1970-2000. In 1950, the predominant industry for Black employment was Agriculture, Forestry, and Fishing. This industry is an important one for understanding the trends in income inequality for Black men for a number of reasons. First, it employed the largest proportion of Black males (27 percent) of any industry. Second, the wages were the lowest of the major industries, with Black men earning just over \$2,000 a year—the lowest wage of any of the largest industries. Third, almost half as many White men were employed in this industry, and those who were earned 50 percent higher wages than Black men. Finally, in three of the other five major industries, White workers earned 50 percent higher wages than Black workers. The combination of high segregation, low wages, and sizable wage disparities resulted in Black men earning 60 percent⁸ of the wage of White men.

In 1960, the number of Black men employed in Agriculture, Forestry, and

Figure 3: Hypothetical Cases

Industry	Black		White	
	People	Income	People	Income
Case 1: Total segregation, no wage difference				
A	200	\$50,000	0	
B	0		200	\$50,000
Average		\$50,000		\$50,000
Wage Differential	0			
Case 2: No segregation, large wage difference				
A	100	\$40,000	100	\$50,000
B	100	\$30,000	100	\$40,000
Average		\$35,000		\$45,000
Wage Differential	\$10,000			
Case 3: High segregation, no wage difference				
A	150	\$25,000	100	\$25,000
B	150	\$25,000	100	\$25,000
C	150	\$35,000	100	\$35,000
D	50	\$70,000	200	\$70,000
Average		\$32,500		\$45,000
Wage Differential	\$12,500			

SOURCE: Ruggles, Steven, Matthew Sobek, Trent Alexander, Catherine A. Fitch, Ronald Goeken, Patricia Kelly Hall, Miriam King, and Chad Ronnander. *Integrated Public Use Microdata Series: Version 4.0* (machine-readable database). Minneapolis, Minnesota: Minnesota Population Center (producer and distributor), 2008.

Fishing dropped from 27 percent to 12 percent. However, Figure 1 indicates that this change had a relatively small effect on wage differentials. Why did this drop not have a larger impact on reducing income inequality? Although better than in the previous decade, the average wage of the Agriculture, Forestry, and Fishing sector was still very low at \$3,500 a year. Further, although its significance had diminished, the industry was still the second largest employer of Black men. More importantly, wage differentials increased in other industries. In every other industry, the wages of White workers increased by a larger percentage than Black workers. This is seen most clearly in Construction, where Black wages increased by \$2,000 while White wages increased by \$8,000, and Manufacturing, where Black wages

increased by around \$5,000 compared to the White wage increase of around \$10,000. While Black men made modest gains in Agriculture, Forestry, and Fishing, they lost ground in every other industry, resulting in an insignificant change in income inequality.

The decade from 1960 to 1970 was perhaps the most important decade for Black men for two reasons. First, it saw the largest improvement in wage disparities, with Black men earning 58 percent of White men's wages in 1960, and 72 percent in 1970. This improvement derives from two principal trends. First, Agriculture, Forestry, and Fishing ceased to be a major employer for Black men, and were replaced by Professional and Related Services, which offered a wage over six times higher than the Agriculture, Forestry, and Fishing sector. Second, the

Figure 4: Men

		1950		1960		1970		1980		1990		2000	
		Emp	Inc	Emp	Inc	Emp	Inc	Emp	Inc	Emp	Inc	Emp	Inc
Agriculture, Forestry, and Fishing	Black	27%	\$2,093	12%	\$3,536								
	White	15%	\$3,110	8%	\$5,027								
Business and Repair Services	Black											8%	\$18,800
	White											7%	\$26,500
Construction	Black	8%	\$10,150	9%	\$12,309	8%	\$18,387	8%	\$18,524	8%	\$17,472	8%	\$19,400
	White	8%	\$14,350	8%	\$22,614	8%	\$32,007	10%	\$27,780	11%	\$25,536	12%	\$25,000
Manufacturing-Durable Goods	Black	16%	\$13,650	16%	\$19,179	18%	\$27,467	18%	\$28,798	13%	\$26,880	11%	\$26,500
	White	17%	\$20,650	19%	\$29,484	18%	\$37,455	18%	\$39,350	15%	\$37,156	13%	\$35,500
Manufacturing-Nondurable Goods	Black	8%	\$12,950	9%	\$17,461	9%	\$22,927	11%	\$25,466	9%	\$24,849		
	White	11%	\$19,950	11%	\$28,911	9%	\$36,547	9%	\$37,036	7%	\$36,217		
Professional and Related Services	Black					9%	\$22,927	13%	\$23,152	15%	\$23,520	16%	\$25,000
	White					10%	\$32,007	13%	\$31,251	13%	\$33,600	15%	\$35,000
Retail Trade	Black	9%	\$9,450	10%	\$11,736	9%	\$18,387	10%	\$16,210	13%	\$13,440	14%	\$16,000
	White	13%	\$12,950	12%	\$17,461	12%	\$24,743	13%	\$22,897	14%	\$20,160	14%	\$21,000
Transportation	Black	8%	\$14,350			8%	\$29,737	9%	\$35,462	9%	\$30,770	10%	\$29,000
	White	8%	\$21,350			6%	\$36,547	6%	\$42,126	6%	\$36,288	6%	\$35,000

*All numbers are medians except Agriculture, Forestry, and Fishing, which are averages.

SOURCE: Ruggles, Steven, Matthew Sobek, Trent Alexander, Catherine A. Fitch, Ronald Goeken, Patricia Kelly Hall, Miriam King, and Chad Ronnander. *Integrated Public Use Microdata Series: Version 4.0* (machine-readable database). Minneapolis, Minnesota: Minnesota Population Center (producer and distributor), 2008.

resurgence of the Transportation industry which, with a median wage of almost \$30,000, was over eight times higher than the median wage of Agriculture, Forestry, and Fishing.

More importantly, the wage increases in these two industries corresponded with a more pervasive trend: the wage differentials within other industries narrowed. Unlike the previous decade,

where Black wages stagnated, in every major industry⁹ the aggregate wage for Black men increased more than that of White men. The largest change occurred in the Transportation industry, where Black men earned 81 percent of the wage of White men. Other industries saw the wage gap fall between three and eight percentage points. The decade that ended in 1970 also showed a marked decrease in industry segregation; by 1970 three

industries employed the same proportions of Black and White men. Accordingly, an overall decrease in wage inequality corresponded with the reduction of wage disparities and industry segregation.

Despite these positive developments for Black men, the second reason that 1970 marked an important change is that since then, little progress has been made in reducing income inequality. In

1970, Black men earned 72 percent of the wage that White men earned; 20 years later, this ratio remained unchanged. This condition had more to do with the dynamics of wage growth within industries than race differentials between industries. From 1970 to 1990, the wages of Black men increased relative to White men in the Construction, Nondurable Goods Manufacturing, and Transportation industries, while their relative wages fell in the Durable Goods Manufacturing and Retail Trade sectors. Remarkably, the percentages of Black men employed in these two groups of industries were almost identical to each other in every decade: 25 percent versus 26 percent in 1970, 28 percent versus 29 percent in 1980, and 27 percent each in 1990. Since Black men were equally employed in both sets of these industries, the effect of the positive wage gains in the first group were nullified by the negative wage losses in the second. It was only in 2000 that Black men again made real progress in the labor market, reducing the disparity of Black wages to 80 percent of White wages. Similar to 1970, this improvement was led by wage gains in the majority of the major industries; the Transportation sector was the only one to see a (very small) decline in relative wages for Black men.

What is perhaps most interesting about the Black labor market is that industry segregation did not significantly affect income inequality. Aside from Agriculture, Forestry, and Fishing in 1950, every industry in every decade employed almost identical percentages of Black and White men, deviating from parity by at most four percentage points. Instead, the Black male labor market has been overshadowed by one fact: in every single industry, from 1950 through 2000, Black men have earned less than White men. As the above analysis shows, the income inequality has improved over time (although not by much since 1970). But those improvements were always founded on increases in the wage earned by Black men, and never by changes in industry segregation.

Black Women

A cross section of the early labor market for women reveals much more segregation than was found for men. In 1950, over half of all Black women were employed in the Personal Services industry. Further, only 10 percent of White women were employed in this field, making it the most segregated industry for men or women. The Personal Services sector also paid the lowest wage among the top five industries, with an average wage for Black women just over \$1,000. While it is true that White women actually earned slightly less than Black women in this sector, because this industry was the lowest paying and had the highest proportion of Black women employed, this slight wage differential within the field did not significantly affect wages for all employed Black women, who earned 38 percent less than White women in 1950.

Personal Services continued to be a highly segregated industry for Black women, becoming even more so in 1960, (with the share Black employment waning until 1990 when it ceased to be a major employer); however, it was not the only industry that followed this trend. Retail Trade was another important industry for women, employing twice as many White women than Black women in both 1950 (22 percent to 10 percent) and 1960 (19 percent to 9 percent). Similarly, Nondurable Goods Manufacturing also employed over twice as many White women as Black women over the same time period, while Durable Goods Manufacturing employed three times as many White women as Black. Unlike Personal Services, both of these industries had negative wage differentials for Black women, ranging from Black women earning 84 percent of the White women in Retail Trade to 78 percent in Durable Goods Manufacturing. Overall, Black women in the 1950s and 1960s found themselves in overwhelmingly segregated industries that paid them lower wages. Although by 1960 the wage differentials were not as large as in the decade before, the

pronounced effect of low wage levels in the Personal Service sector left Black women earning 45 percent of White women's wages.

The experience of Black female workers changed quickly by 1970. First, the share of Black women employed in Personal Service fell from 45 percent to 22 percent. Second, segregation reduced and wage discrepancies lessened in the other major industries. Employment shares rose in both sectors of Manufacturing, climbing to 6 percent in Durable Goods (versus 9 percent for White women), and 8 percent in Nondurable Goods (versus 10 percent for White women). Further, while Retail Trade still employed twice as many White women as Black women, the wage differential reversed, with the median Black women earning \$10,669 compared to the median White women's wage of \$9,761. These developments helped improve Black women's position in the labor market, with the positive employment shifts in Manufacturing and increase in wages in Retail Trade decreasing income inequality drastically, resulting in Black women's wages rising to 75 percent of White women. However, the most important development in the labor market was the ascent of the Professional and Related Services sector.

In 1950, few women were employed in the Professional and Related Services sector. The least segregated industry, the sector's influence on income inequality was overshadowed by the size and scope of Personal Services, as well as the segregation in Retail Trade and Manufacturing. However, in 1960, its significance in the labor market for Black women increased, with lower levels of segregation and a reduced wage differential. By 1970, the Professional and Related Services Industry employed more Black and White women than any other. Most importantly, the industry achieved two important milestones. Besides becoming the largest employing industry for all women, the wage

Figure 5: Women

		1950		1960		1970		1980		1990		2000	
		Emp	Inc	Emp	Inc	Emp	Inc	Emp	Inc	Emp	Inc	Emp	Inc
Agriculture, Forestry, and Fishing	Black	12%	\$1,191										
	White	3%	\$889										
Finance, Insurance, and Real Estate	Black					3%	\$17,025	6%	\$18,524	7%	\$22,848	7%	\$25,000
	White					7%	\$18,841	9%	\$18,524	9%	\$21,504	8%	\$25,000
Manufacturing-Durable Goods	Black	3%	\$9,450	3%	\$14,599	6%	\$17,479	8%	\$20,328	6%	\$21,108	5%	\$21,000
	White	10%	\$13,650	9%	\$18,606	9%	\$21,111	8%	\$21,555	7%	\$22,848	6%	\$24,000
Manufacturing-Nondurable Goods	Black	7%	\$8,750	6%	\$11,736	8%	\$13,847	9%	\$15,897	8%	\$16,128	5%	\$18,600
	White	18%	\$10,850	14%	\$14,026	10%	\$17,025	8%	\$17,367	6%	\$18,816	5%	\$22,000
Personal Services	Black	51%	\$3,850	45%	\$3,721	22%	\$5,221	10%	\$6,838				
	White	10%	\$3,850	8%	\$3,149	6%	\$5,675	4%	\$6,537				
Professional and Related Services	Black	11%	\$8,050	18%	\$11,736	28%	\$16,571	37%	\$18,061	37%	\$18,816	41%	\$20,000
	White	16%	\$10,850	23%	\$14,026	28%	\$17,479	32%	\$17,367	35%	\$19,488	40%	\$21,900
Public Administration	Black			3%	\$19,751			8%	\$22,874	8%	\$25,536	8%	\$28,000
	White			4%	\$19,751			5%	\$22,874	4%	\$24,872	5%	\$28,000
Retail Trade	Black	10%	\$4,550	9%	\$6,011	9%	\$10,669	11%	\$10,887	13%	\$10,163	14%	\$11,100
	White	22%	\$6,650	19%	\$7,156	18%	\$9,761	19%	\$10,008	18%	\$10,483	18%	\$12,000

*All numbers are medians except Agriculture, Forestry, and Fishing, which are averages.

SOURCE: Ruggles, Steven, Matthew Sobek, Trent Alexander, Catherine A. Fitch, Ronald Goeken, Patricia Kelly Hall, Miriam King, and Chad Ronnander. *Integrated Public Use Microdata Series: Version 4.0* (machine-readable database). Minneapolis, Minnesota: Minnesota Population Center (producer and distributor), 2008.

differential had shrunk to less than \$1,000, with Black women earning \$16,571 and White women earning \$17,479.

From 1980 through 2000, Professional and Related Service continued to be the major factor in reducing income inequality between Black and White women. Professional Services ceased to be a major employer of women, and the Manufacturing sector

fell to about 10 percent of the female workforce. Retail Trade remains an important industry, with employment segregation further reduced. However, its impact on income inequality is small compared with the influence of Professional Services. Every year, Professional Services increased its importance in the labor market, and by 2000, employed 40 percent of both Black and White women. In addition,

Black women earned over 90 percent of White women's wages. Other industries also experienced a similar trend of near equality in wages and employment percentages. Finance, Insurance, and Real Estate employed a little under 10 percent for all women, paying equal wages to Blacks and Whites alike. Public Administration, while employing more Black women than White (8 percent of the Black population compared to 5

percent of the White population), also paid equal wages by 2000.

In summary, Black women made significantly more gains in their employment status than Black men, reducing income inequality from Black women earning 38 percent of the wages of White women in 1950 to actually achieving equality in pay from 1980 through 1990 (and near equality of 96 percent by 2000). In 1950, the majority of Black women found themselves employed in the highly segregated industry of Personal Services earning the lowest wages amongst all major industries. From there, they made important strides in leaving both segregated industries and industries with large wage differentials and entering industries that employed almost equal shares of both Black and White women that paid almost identical wages. This intersection of increased parity in employment percentages and wages earned across the major industries led the reduction – and near elimination – of income inequality.¹⁰

Conclusion

Using segregation and income disparities within industries as a tool to explore the dynamics of income inequality, the analysis of Black and White income inequality revealed different experiences for men and women. Both Black men and women held similar positions in the labor market in 1950, employed overwhelmingly in highly segregated, low paying industries. By 2000, segregation has reduced greatly for both men and women; however, while wage disparities had also shrunk between Black and White women, they persist for men. The disparate experience of Black men and women underscore the comprehensive nature of income inequality, and show that in order to eliminate income inequality, policy makers cannot merely focus on wage differentials or segregation in industries, but must consider the two in tandem.

Notes

- 1 In this paper, industry segregation will refer to the differing shares of employment that demographic groups occupy in a given industry. The term is not meant to reflect a policy of intentional discrimination, for segregation may result from random allocations of workers. For more information, see Carrington and Troske (1997).
- 2 For a review on the economics of discrimination, see Arrow (1998).
- 3 The data was downloaded from <http://usa.ipums.org/usa/index.shtml>.
- 4 Brown (1984) provides a critique for focusing only on employed workers, stating that apparent wage gains are inflated by potentially lower earning workers dropping out of the work force. This critique is muted in this context for the focus in on wages earned in industries and not on income earned in general.
- 5 Explained at <http://usa.ipums.org/usa-action/codes.do?mnemonic=IND1950>.
- 6 Note that these five industries did not remain constant over time.
- 7 Heckman, Lyons, and Todd (2000) describe in detail common methodological errors researchers make when studying Black-White income inequality, and the methodology employed in this study is subject to some of these errors. Hence, readers should not interpret these results as being the most accurate estimation of income inequality, but rather as a general illustration of labor market conditions.
- 8 When referring to the wage inequality between demographic groups as a whole, the statistic used is the ratio of the median wage earned in both groups.
- 9 As indicated, the analysis is restricted to the top five industries that employ that largest percentage of Black and White workers.
- 10 Derek Neal (2004) takes into account voluntary withdrawal from the labor market and finds that income gaps between Black and White women are actually larger than observed in Current Populations Surveys. However, this analysis is concerned only with observed wages.

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